



Moderating Effect of Organizational Growth on Debt to Equity Ratio

¹Ugwu, Kevin Okoh, ²Obasuyi, George D., and ³Silas, Chinweze Echefu

^{1&2}Department of Accountancy
Enugu State University of Science and Technology (ESUT), Enugu State, Nigeria.

³Department of Accounting/Finance
Spiritans University, Nneochi, Abia State

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ABSTRACT

This focus of this study is to examine the moderating effect of organizational growth on debt to equity ratio. The purpose of the study was to determine; to ascertain the moderating effect of organizational growth on debt to equity ratio. This study adopts the ex-post facto i.e. after the fact or event. The paper uses secondary data only extracted from the Annual Reports and Accounts of 16 sampled firms out of the insurance companies in Nigeria representing 50% of the population. Random sampling technique is employed to select the firms so as to ensure that all the firms have equal chance of representation and also depending on availability of data. Multiple regression is used as a tool of analysis for the study covering a period of 11 years (2006-2016) using Statistical Package for Social Scientists (SPSS). The population of this study is the thirty-two (32) quoted insurance firms on the Nigerian Stock Exchange (NSE) as at 31st December, 2016. The result of the study revealed that Growth has an insignificant negative effect on Debt to Equity Ratio. The study concluded that while growth, tangibility and age do not have significant effect on Debt to Equity Ratio of quoted insurance firms in Nigeria, size and profitability have significant effect on Debt to Equity Ratio. The study recommended that the impact of growth variable on capital structure should be considered by financial managers when making debt financing decisions. The increase in the Gross Premium of the Insurance firms should be sustained over the years through aggressive marketing strategy, competitiveness and introduction of new products and negative growth should be avoided as much as possible so as to avoid incurring debt and minimize the risk of bankruptcy

Keywords: Organizational Growth; Debt to Equity Ratio; Nigerian Stock Exchange

1. Introduction

There is much controversy about the relationship between growth rate and level of leverage and citing the pecking-order theory he states that a firm will first use internally generated funds which may not be satisfactory for a growing organization. And the subsequent options for the growing organization is to apply debt financing system which implies that a growing organization should have adequate financing system in order to have high leverage. Proceeding to other hand, agency costs for every growing organization are expected to be higher as these firms have more flexibility with respect to impending investments.

A company's capital structure, according to them, refers to how a company finances its operations whether through shareholders equity fund or debt or a combination of both. Capital structure is made up of equity (shareholders' fund) and debt (liabilities) and there are external and internal factors that affect the capital structure of firms. The external factors, which are outside the control of the firms, can be classified into political/legal, social, economic and technological, while the internal factors are within the control of the firms and include the determinants of capital structure i.e. size, growth, profitability, tangibility and age. Since these factors (external and internal) vary from one country to another, findings from studies cannot be generalized hence the need for more specific study as a result of the peculiarities of individual countries. one of the many objectives of financial managers is to maximize the wealth of shareholders. He opined that shareholders' wealth maximization depends on some issues like managing lower cost of capital, generating tax shield benefits from debt financing, reducing the agency costs of debt and equity etc. All these issues, according to him, are determined and managed by reaching at a point of optimal capital structure. As a result, financial managers strive to ensure the optimal mix of debt and equity in the firm's capital structure.

capital structure measured by "Leverage" can be narrowed down into long-term debt/equity and short-term debt/equity. They asserted that short-term debt exposes a firm to refinancing risk, used within reasonable limits and is justified by cost and asset matching considerations and when market value of equity is above its book value, the firm is able to sell additional equity if the need arises. They further stated that it is now prevalent for short-term financing to become a necessity in the firm's need of working capitals or representing an on-going portion of the asset base and although equity financing is more expensive than employing debt, striking a balance of both elements is deemed reasonable. Capital structure therefore is regarded as one of the financial components which could imply the firms' health conditions.

The variables of interest (capital structure, size, growth, profitability, tangibility, and age) are defined as follows: Capital structure means the addition of long-term debt and shareholders' fund. Size is the turnover (for other companies) or gross income (for Banks) or gross premium (in case of insurance companies). Growth means the percentage change in turnover/gross income or gross premium for a number of years. Profitability is the percentage of profit before tax to total assets.

Tangibility is the percentage of fixed tangible assets to total assets (fixed assets plus current assets). Age is the age of the firm arrived at by finding the difference between the date of this study and the firm's incorporation date. However, most of the studies on Capital Structure have been on other sectors and only very few studies have been carried out on the Insurance Sector in Nigeria. Moreover, the results of the previous studies have been inconclusive, controversial and open to further investigation.

Statement of the Problem

The main motive of bondholders always is the entertainment of fear and such organization may go for more risky projects in future as they have more chances of selecting between risky and safe investment opportunities. Deeming their investments is at risk in future, bondholders will enforce higher costs of lending to growing organizations. Growing organization, thus, facing higher cost of debt and will use fewer debt and more equity. Companies with high future progress opportunities always lack the confident to apply more equity financing.

Objective of the study

The main objective of this study is to ascertain the moderating effect of organizational growth on debt to equity ratio. The specific objectives are to;

- i. Ascertain the impact of debt financing on organizational growth
- ii. Determine the effect of debt to equity ratio on organizational growth

Research Hypothesis

- i. H_0 : Debt financing has no significant impact on organizational growth
- ii. H_0 : Debt to equity ratio has no significant effect on organizational growth

2. Review of Related Literature

2.1 Conceptual Review

Debt Financing

Debt is one of the most vital ingredients in the capital structure of organizations and it offers a medium for business financing as organizations borrow money in order to obtain the capital, they require for capital expenditure. It represents any agreement between a lender and a borrower: notes, certificates, bonds, debentures, mortgages and leases.

The major characteristic of debt financing is that the actual borrowed amount, plus interest, must be paid back to the breadwinners of debt over a certain or given period of time. The interest rate that must be paid on the money borrowed, it comprises with reimbursement schedule which also be set out in the agreement between the lender and the borrower. If the borrowers do not fulfill their responsibilities set out in the agreement, it can impact negatively on their credit rating, which in turn can make it more problematic for them to obtain funds in the future and it can also lead to financial failure. Even if a firm suffers financially and is not able to make the scheduled payments, they still have an obligation towards the debt providers. Debt can either be short-term or long-term. Short-term debt represents funds required to finance the day to day operations of the business, inventory financing, in the form of trade receivables and short-term loans. These categories of funds' reimbursement schedules usually take place in fewer than a year. Long-term financing is usually acquired when organizations purchase assets such as buildings, machinery or equipment. The scheduled repayments for these funds extend over periods longer than one year (Modugu, 2013).

Equity

Equity allows the organization to obtain funds without incurring debt. This means that the money gotten through equity cannot be repaid at any specific time. The investors purchase shares in the organizations hope to regain their investment out of the impending profits. The shareholders have the pleasure to share in the profits of the firms in the manner of dividends or impending capital gains. However, if the businesses suffer any loss, the shareholders have limited liability, which means that whatever they lost cannot go beyond the amount invested in the businesses.

We have two types of equity: namely, internal and external equity Myers, (1984). Internal equity remains the retained earnings of the firms which forms basic part of the company's distributable reserves. Once distributable profit is determined in the income statement, the businesses has to choose what proportion of the profit that will be paid out as dividends to the ordinary shareholders. The outstanding sum represents the retained earnings and the money will be carried over to the company's distributable reserves in the comprehensive position.

The retained earnings will consequently represent the amount of money that serve as reinvested into the firms. External equity remains as the external capital which is obtained through the issuing of new shares. It generally consists of ordinary share capital and preference share capital. An organization has to generate external equity once its internal equity (retained earnings) is not enough for the required investment opportunity. Once an organization elevates much capital through equity issues, it might be seen as a signal to the market that it does not have enough reserves or cash flows, and it might lead to undervaluation of the firm's shares. Once investments are funded with external equity, the share prices of companies sometimes fall. Therefore, it is better to build up reserves so that a higher proportion of capital need can be supplied from internal sources (Modugu, 2013).

Combination of Debt and Equity

When considering the characteristics of and the various advantages and disadvantages associated with debt and equity, it is clear that firms should consider a combination of these different sources of financing. As mentioned earlier, employing only debt in the capital structure may be very risky more especially when bankruptcy risk is involved, because the more a firm uses debt, the higher the bankruptcy risk. The periods of high interest rates, it may cause the earnings on an investment to be eliminated by high interest payments. Issuing only shares as the means of raising funds may also be very risky option to be consider. The main motive is because an organization must first use cash to fund new investments, shares only may not generate cash at the time the organization needs to pay for the new investment.

Theoretical research to this moment has revealed that organizations can influence its value by changing its ratio of debt to equity. The major dispute is that organizations need to seek for an optimal combination of debt and equity that will eventually increase the overall value of the organizations. Consequently, it seems that the decisions concerning capital structure might impact on the success and impending prosperity of the companies (Modugu, 2013).

Growth

Shehu (2011), empirically, there is much controversy about the relationship between growth rate and level of leverage and citing the pecking-order theory he states that a firm will first use internally generated revenue which may not be enough for growing an organization. And next options for growing a business is to use debt financing which implies that a growing organization will have a high leverage (Drobotz and Fix, 2003). On the other hand, agency costs for growing businesses are expected to be higher as these organisations have more flexibility with respect to impending investments. The main reason is that bondholders fear that such companies may go for risky projects in future as they have more chances of selecting between risky and safe investment opportunities. Deeming their investments is at risk in future, bondholders will impose higher costs of lending to growing firms. Growing firms, thus, facing higher cost of debt will use less debt and more equity. In line with this assertion, Titman and Wessels (1988), Barclay, Smith and Watts (1995) and Rajan and Zingales (1995) all find a negative relationship between growth opportunities and leverage. Myers (1977), opine that, organisations with high impending growth opportunities should employed more equity financing, because a higher leveraged firm is more likely to pass up profitable investment opportunities. Just as Huang and Song (2002:9) claimed, such an investment effectively transfers wealth from stockholders to debt-holders.

2.2 Theoretical Review

The Pecking-Order Theory

Myers (1984) and Myers and Majluf (1984) suggest that capital structure choice is driven by the magnitude of information asymmetry present between the firm and outside investors. The more severe the information asymmetry, the more risk the outside investors are facing and hence the more reduction they demand on the price of issued securities. Subsequently, companies will wish financing through internal funds and if they wish to generate funded outside capital, they will first issue risk-free debt before low-risk debt. An organization only issued equity is only issued as last resort. Myers (1984) stated that, the static trade-off theory presumes that companies set an optimal debt ratio and move gradually towards it. The theory suggests that optimal debt ratio is always set by balancing the trade-off between the benefit and cost of debt. The benefit of debt ascends from the tax deductibility of interest payments on debt and the cost of debt that comes in the form of higher probability of bankruptcy and the loss suffered in the event of bankruptcy.

The pecking order theory usually based on the declaration that organizations adopt debt only when retained earnings are insufficient and raise external equity capital only as a last resort. Heaton, (2002) opine that, in more recent models of capital structure choice include 'windows of opportunity' and 'decision-making optimism. Baker and Wurgler (2002) suggest that managers might minimize the cost of capital by timing the market intense of issuing equity once share prices increase in this regarded, it is implying that market situations sometime influence the pecking order. Nevertheless, Hovakimian (2006) revealed that the timing of equity issuance does not have any significant long-lasting impact on capital structure. In a quest for the factors that managers consider in determining the financing mix of a firms, several researches have examined the role of different firm-specific factors. One of the articles review by Harris and Raviv (1991) reported that leverage is positively related to non-debt tax shields, asset

tangibility, firm size, and investment opportunities, although it is inversely related to firm's uniqueness, bankruptcy risk, advertising expenditure and research and development expenditure.

Bankruptcy Cost Theory

Bankruptcy costs refer to costs incurred when the perceived probability that the organization will default on financing is greater than zero. The potential costs of bankruptcy may be both direct and indirect. Examples of direct bankruptcy costs are the legal and administrative costs in the bankruptcy process. Haugen and Senbet (1978) argue that bankruptcy costs must be trivial or non-existent if one assumes that capital market prices are competitively determined by rational investors. Examples of indirect bankruptcy costs are the loss in profits incurred by the organization as a result of the unwillingness of stakeholders to transact business with firms. Client in most time depend on the firm's goods and services and the high probability of bankruptcy affect the solvency of organisations (Titman, 1984). If a business is perceived to be close to bankruptcy, customers may be less willing to buy its goods and services because of the risk that the firm may not be able to meet its warranty obligations. Also, employees might be fewer inclined to work for the organization or suppliers less likely to extend trade credit. These behaviours by the stakeholders effectively decrease the organizational value. Therefore, companies that have highly suffered high cost could have incentives to reduce outside financing so as to lower these costs. Warner (1977) posit that such bankruptcy costs might increase with debt, thus reducing the value of the firms. Modigliani and Miller (1963), it is optimal for a firm to be financed by debt in order to benefit from the tax deductibility of debt. The firms value can increased by the use of debt since interest payments can be deducted from taxable corporate income. Increased in debt might lead to increase in probability of bankruptcy. Hence, the optimal capital structure embodies the level of leverage that balances the bankruptcy costs and benefits of debt finance. The more the probability of bankruptcy an organization faces as a result of increases in the cost of debt, the less debt firms use in the issuance of new capital (Pettit and Singer, 1985).

This work is based on the Trade-Off Theory and the Pecking-Order Theory because the two theories are the major theories on Capital Structure with explanatory variables and their predicted relationship with the explained variables.

2.3 Empirical Review

Effect of Growth on Debt to Equity Ratio

Salawu and Agboola (2008) studied the Determinants of Capital Structure of 33 Large Non-Financial Listed Firms in Nigeria for the period 1990 to 2004 employing Ordinary Least Square (OLS) Regression, Fixed Effect and Random Effect Models. The findings indicate that growth opportunities are negatively related to Total Debt.

Chen (2009) investigated how the Pecking-Order theory explains Capital Structure using Hierarchical Regression and discovered that one of the determinants of Capital Structure is growth rate.

Zarigat (2009) conducted a study on Pecking Order Theory, Trade-Off Theory and Determinants of Capital Structure in Jordan using Pecking Order and Trade-Off Asymmetric Models and discovered that growth is negatively related to leverage.

Omorogie and Erah (2010) studied capital structure and corporate performance in Nigeria between 1995 and 2009. The researchers adopt Ordinary Least Square (OLS) techniques of model estimation. The study revealed that capital structure has not in any way sustained effective funding as required for the development and growth of corporate organisations because of its high rate of growth.

Akinlo (2011) examined the determinants of capital of 66 firms listed on the Nigerian stock Exchange during the period 1999-2007 using panel data. The results revealed that leverage is negatively related to growth opportunities.

Shehu (2011) investigated the determinants of capital structure from 15 sampled listed Nigerian insurance firms for the period 2001-2010 using multiple regression. The result revealed that growth statistically and significantly influences Debt Ratio. Chandrasekharan (2012) investigated the potential determinants of capital structure among listed Nigerian firms for a period of five years from 2007 to 2011 using panel multiple regression and discovered that growth is a strong determinant of leverage in the Nigerian firms.

Santos and Brito (2012) proposed and tested a Management Model for firm performance in Brazil based on subjective indicators using Confirmatory Factor Analyses. It was discovered that firm performance affects growth significantly.

Supa (2012) assessed key Factors Influencing Capital Structure Decision and Capital Structure Dynamics from 128 listed companies in Stock Exchange of Thailand (SET) from 2002 to 2010 using Multiple Linear Regression with the result that Growth is positively related to Leverage.

Akinyomi and Olagunju (2013) conducted a study on the determinants of capital structure of 24 randomly selected listed manufacturing firms in Nigeria for a period of 10 years (2003-2012) using Regression Analysis. The results revealed that leverage has a positive relationship with growth.

Aremu, Ekpo, Mustapha and Adedoyin (2013) studied the determinants of capital structure in the banking sector using pooled Ordinary Least Square (OLS) regression technique in data analysis and found that the one of the determinant factors which contributed to the bank leverage level of the Banking industry in Nigeria between the years 2006 to 2010 is growth.

Chechet, Garba and Odudu (2013) examined the determinants of Capital Structure in the Nigerian Chemical and Paints Sector from 2005 to 2009 using OLS regression method of data analysis and discovered that growth has insignificant impact on Leverage.

Saleem, Rafique, Mehmood, Irfan, Saleem, Tariq and Akram (2013) examined the determinants of capital structure in Oil and Gas firms listed on Karachi Stock Exchange of Pakistan for the period of 2006 to 2011 using Multiple Regression technique for data analysis. It was concluded that growth has a significant impact on the balance of leverage and has a negative relationship with leverage.

Basse, Arene and Okpukpara (2014) studied the determinants of Capital Structure of twenty eight (28) agro-allied firms, which have been listed on the Nigeria Stock Exchange (NSE) from 2005 to 2010 using Ordinary Least Squares (OLS). The results showed that the estimated growth coefficient is positively related to Debt Ratio and also has significant impact on Debt Ratio.

Hoque, Hossain and Hossain (2014) conducted a study on for capital structure policy and its impacts on value of the firm for a period of five years from 2008 to 2012 using opinions survey of 80 respondents of the 20 manufacturing corporate firms listed on the Dhaka Stock Exchange in Bangladesh. The results indicated that one of the most important determinants of capital structure policy as rated by the respondents is growth rate.

Nwankwo (2014) studied the effect of Capital Structure of Nigerian Firms on Economic Growth using Regression Analysis and concluded that capital structure of firms has long-run relationship with growth variable.

Shala, Ahmeti, Berisha and Perjuci (2014) investigated the factors that determine the capital structure among insurance companies in Kosovo, based on data retrieved from 11 insurance companies during the period 2009-2012 using the Random Effect (RE) model. The result showed that growth has positive relationship with the debt ratio. Growth also has significant effect on debt ratio.

Adaramola and Olarewaju (2015) examined the major determinants of capital structure of quoted composite insurance companies in Nigeria using panel data regression technique and the results revealed that growth has a negative impact on Leverage.

Isola and Akanni (2015) investigated the factors responsible for the financing decision of firms in Nigeria for the period of 2001 to 2010 using panel regression analysis. It was discovered that Growth and Leverage are negatively correlated.

Mutairi and Naser (2015) studied the Determinants of Capital Structure of Banking Sector in 47 Gulf Cooperation Council (GCC) Commercial Banks from 2001 to 2010 employing Panel Data Analysis. It was found that there is negative relationship between growth and leverage.

Tonye and Andabai (2015) conducted a study on Determinants of Capital Structure and Firm's Performance in Nigeria (1989-2014) using Ordinary Least Square (OLS) Regression. It was discovered that there is causality between growth and firm's performance.

Akhtar, Bano and Bano (2016) evaluated Capital Structure Impact on Banking Sector Performance in Pakistan employing Pooled Analysis for Correlation and Regression and found that there is positive significant relationship between growth rate and capital structure.

Guruswamy and Marew (2016) examined the determinants of capital structure of selected insurance companies in Ethiopia using multiple regression analysis. It was discovered that firm growth is an important determinant factor of capital structure.

Shehu and Joseph (2017) assessed the impact of capital structure on investment growth opportunity, using listed pharmaceutical firms in Nigeria employing Regression as a tool of analysis. Findings showed that Short term debt, total debt and performance were found to have significant, negative and strong effect on investment growth opportunity of Listed Pharmaceutical

3. Methodology

This study adopts the ex-post facto i.e. after the fact or event. The paper uses secondary data only extracted from the Annual Reports and Accounts of 16 sampled firms out of the insurance companies in Nigeria representing 50% of the population. Random sampling technique is employed to select the firms so as to ensure that all the firms have equal chance of representation and also depending on availability of data. Multiple regression is used as a tool of analysis for the study covering a period of 11 years (2006-2016) using Statistical Package for Social Scientists (SPSS).

Population of the study

The population of this study is the thirty-two (32) quoted insurance firms on the Nigerian Stock Exchange (NSE) as at 31st December, 2016. (Otaru, 2017).

Sample Size

Random sampling is used to select the insurance firms from the population of thirty-two (32) by arranging the population in groups of twos and one firm selected from each group, thereby giving a fair chance of representation of the population and also based on data availability.

Method of Data Collection

The data collected from the annual reports of the sampled insurance firms are presented in tabular forms namely summary of descriptive statistics, summary of coefficient of correlation, summary of regression results, model summary and Analysis of Variance (ANOVA). Multiple regression is used to analyse data and test the hypotheses at 5% significant level i.e. 0.05 using Statistical Package for Social Scientists (SPSS).

4. Presentation and Analysis of data

Year	Firms	Debt to Equity Ratio	Growth
2006	African Alliance	1.483	-
2006	Custodian	0.680	(0.162)
2006	NEM	1.768	-
2006	Royal Exchange	0.884	-
2007	African Alliance	0.320	(0.294)
2007	NEM	0.035	1.992
2007	Regency Alliance	3.721	-
2007	Royal Exchange	0.287	0.142
2008	African Alliance	0.239	0.841
2008	NEM	0.238	0.567
2008	Regency Alliance	1.563	0.481

2008	Royal Exchange	1.101	-
2009	African Alliance	0.485	(0.10)
2009	NEM	0.188	0.227
2009	Regency Alliance	1.373	(0.129)
2009	Royal Exchange	0.974	-
2009	Standard Alliance	1.155	-
2010	Goldlink	24.79	-
2010	African Alliance	0.823	-
2010	Consolidated	0.444	-
2010	WAPIC	0.638	-
2010	Cornerstone	0.722	-
2010	Equity	0.970	-
2010	Lasaco	0.693	-
2010	Linkage	0.296	-
2010	NEM	0.362	0.300
2010	Regency Alliance	1.495	0.134
2010	Royal Exchange	0.623	-
2010	Standard Alliance	1.007	0.19
2011	Mansard	0.825	-
2011	Goldlink	(2.818)	-
2011	African Alliance	1.014	-
2011	AIICO	1.925	-
2011	Consolidated	0.554	-
2011	WAPIC	0.642	-
2011	Cornerstone	1.000	0.062
2011	Continental	0.750	-
2011	Equity	1.012	-
2011	Lasaco	0.766	0.225
2011	Linkage	0.284	-
2011	NEM	0.521	0.180
2011	Regency Alliance	0.443	(0.034)
2011	Royal Exchange	-	-
2011	Standard Alliance	1.184	
2012	Mansard	8.981	0.015
2012	Goldlink	(2.200)	0.244
2012	African Alliance	1.256	0.372
2012	AIICO	2.032	0.908
2012	Consolidated	0.657	0.123

2012	WAPIC	0.663	0.010
2012	Cornerstone	1.020	(0.29)
2012	Continental	0.817	0.082
2012	Custodian	1.180	0.206
2012	Equity	1.105	-
2012	Lasaco	1.115	0.17
2012	Linkage	0.143	0.113
2012	NEM	0.816	(0.19)
2012	Regency Alliance	0.501	0.13
2012	Royal Exchange	0.998	0.127
2012	Standard Alliance	0.931	0.116
2013	Mansard	8.759	0.076
2013	African Alliance	1.890	0.090
2013	AIICO	2.982	0.97
2013	Consolidated	0.718	0.10
2013	WAPIC	0.573	0.003
2013	Cornerstone	1.050	0.066
2013	Continental	0.770	-
2013	Custodian	1.345	1.699
2013	Equity	1.515	0.25
2013	Lasaco	1.283	0.119
2013	Linkage	0.154	0.17
2013	NEM	1.139	(0.075)
2013	Regency Alliance	0.557	0.379
2013	Royal Exchange	1.245	0.193
2013	Standard Alliance	2.091	(0.374)
2014	Mansard	1.750	0.280
2014	African Alliance	2.591	0.53
2014	AIICO	3.987	0.457
2014	Consolidated	0.598	0.111

2014	WAPIC	0.553	0.384
2014	Cornerstone	0.874	(0.019)
2014	Continental	0.826	(0.062)
2014	Custodian	1.149	0.165
2014	Equity	1.377	0.050
2014	Lasaco	1.219	0.135
2014	Linkage	0.153	0.23
2014	NEM	0.909	0.101
2014	Regency Alliance	0.576	0.123
2014	Royal Exchange	1.908	0.038
2014	Standard Alliance	4.163	0.431
2015	Mansard	1.610	(0.047)
2015	AIICO	7.248	(0.025)
2015	Consolidated	0.647	0.309
2015	WAPIC	0.584	0.364
2015	Cornerstone	0.737	0.407
2015	Continental	0.866	0.166
2015	Custodian	1.200	(0.10)
2015	Equity	0.974	(0.27)
2015	Lasaco	1.452	(0.094)
2015	Linkage	0.195	-
2015	NEM	1.014	0.108
2015	Regency Alliance	0.572	(0.058)
2015	Standard Alliance	1.564	-
2016	Mansard	1.723	0.250
2016	AIICO	8.248	(0.178)
2016	Consolidated	1.693	(0.035)
2016	WAPIC	0.564	0.127
2016	Cornerstone	1.080	0.254
2016	Continental	1.040	0.135
2016	Custodian	1.263	0.331

2016	Lasaco	1.458	0.18
2016	Linkage	0.230	0.06
2016	NEM	0.958	(0.013)
2016	Regency Alliance	0.581	0.167
2016	Standard Alliance	1.799	0.16

Discussion of Findings

The work found a negative relationship between growth and leverage which is in a disagreement with the pecking order theory and Shehu (2011) but in agreement with the Trade-Off theory. Pecking order theory, a firm will first use internally generated funds which may not be enough for a growing organization. And next options for the growing organizations is to use debt financing which implies that a growing organization will have a high leverage (Drobetz and Fix 2003). On the other hand, agency costs for growing firms are expected to be higher as these organizations have more flexibility with respect to impending investments. Therefore, growing firms, facing higher cost of debt will use less debt and more equity. The finding is also in agreement with Titman and Wessels (1988), Barclay, Smith and Watts (1995) and Rajan and Zingales (1995) who all found a negative relationship between growth opportunities and leverage.

Summary of Findings

Growth has an insignificant negative effect on Debt to Equity Ratio.

Conclusion

Independent variables numbering five (5) i.e. size, growth, profitability, tangibility and age of the insurance firms were used to ascertain their influence on the insurance firms' Debt to Equity Ratio. It was discovered that while growth, tangibility and age do not have significant effect on Debt to Equity Ratio of quoted insurance firms in Nigeria, size and profitability have significant effect on Debt to Equity Ratio.

Recommendation

The impact of growth variable on capital structure should be considered by financial managers when making debt financing decisions. The increase in the Gross Premium of the Insurance firms should be sustained over the years through aggressive marketing strategy, competitiveness and introduction of new products and negative growth should be avoided as much as possible so as to avoid incurring debt and minimize the risk of bankruptcy.

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